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E.O. 11652: XGDS-2

TAGS: EG, IS, PINR

SUBJECT: INTSUM 626 - AUGUST 11, 1978

LONDON FOR KINSOLVING
PARIS FOR NICHOLAS MURPHY
OTHER ADDRESSEES FOR CHIEFS OF MISSION

WARNING NOTICE SENSITIVE SOURCES AND METHODS INVOLVED NOT
RELEASABLE TO FOREIGN NATIONALS

1. LEBANON. THE CEASEFIRE IN BEIRUT APPEARS TO BE TAKING
HOLD, ALTHOUGH SOME SNIPING CONTINUED AND THERE WAS ONE
MINOR DUST UP. SYRIAN FORCES WITHDREW FROM SOME OF THEIR
EXPOSED POSITIONS IN EAST BEIRUT AND WERE REPLACED BY
LEBANESE INTERNAL SECURITY FORCES. ATTEMPTS BY SAUDI
TROOPS OF THE ADF PROVED UNSUCCESSFUL BECAUSE THEY WERE
NOT PREPARED TO RISK THEIR SOLDIERS IN SUCH AN EXPOSED
POSITION.

2. EMBASSY BEIRUT REPORTS THAT THE CEASEFIRE INCLUDES
THREE STAGES:

(A) (TO BE IMPLEMENTED IMMEDIATELY). THE CHRISTIAN
MILITIAS WOULD WITHDRAW FROM THE STREETS. THE SYRIANS
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WOULD WITHDRAW FROM SEVEN POSITIONS TO ONE, ON THE RIZK
TOWER.

(B) (TO BE IMPLEMENTED IN TWO WEEKS). THE LEBANESE
ARMY WOULD TAKE OVER THE RIZK TOWER IN CHRISTIAN BEIRUT
AND THE MURR TOWER IN MUSLIM BEIRUT.

(C) THE LEBANESE GOVERNMENT WOULD BEGIN DISCUSSIONS
WITH ALL PARTIES ON THE ROLE OF THE ADF. THE GOAL
WOULD BE TO REDUCE THE NUMBER OF SYRIANS AND INCREASE
OTHER ARAB PARTICIPATION.

3. MEANWHILE, THE LEBANESE ARMY BATTALION DEPLOYED
SOUTHWARD REMAINS STALLED AT KAWKABA, ALTHOUGH THERE
HAS APPARENTLY BEEN NO SHELLING SINCE TUESDAY. CHRISTIAN
MILITIA LEADER HADDAD AND REPRESENTATIVES OF THE
BATTALION MET AGAIN WITHOUT RESULTS. THE KILLING OF ONE
SOLDIER OF THE LEBANESE ARMY UNIT BY HADDAD'S TROOPS
ON AUGUST 7 (SIX OTHERS WERE WOUNDED) MAY PRECLUDE ANY
POSSIBILITY THAT BEIRUT CAN SUSTAIN HADDAD'S STATUS IN
THE ARMY. (SECRET)

4. SAUDI ARABIA. THE RECENT FLURRY OF SAUDI ACTIVITY IN ARAB CAPITALS APPEARS TO HAVE HAD TWO PRIMARY OBJECTIVES: TO PUT PRESSURE ON THE US TO TAKE A MORE ACTIVE ROLE IN THE PEACE PROCESS AND IN OBTAINING ISRAELI COMPROMISES; AND TO RESTORE ARAB UNITY BY RECONCILING EGYPT AND SYRIA IN ORDER TO STRENGTHEN THE ARAB POSITION IN CASE THE SADAT INITIATIVE FAILS.

5. FROM THE SAUDI PERSPECTIVE, THESE GOALS ARE SEQUENTIAL AND REINFORCING. THE SAUDI REASONING SEEMS TO GO LIKE THIS: IF THE SADAT INITIATIVE IS TO BE SUCCESSFUL, THE US MUST PUT PRESSURE ON ISRAEL; IF THE US DOES NOT PUT PRESSURE ON ISRAEL, THE INITIATIVE WILL FAIL. THE ONLY
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MEANS TO PROTECT THE MODERATES FROM THE REPERCUSSIONS OF A FAILURE IS BY MOVING TOWARD A SADAT-ASSAD RECONCILIATION. WITHOUT RECONCILIATION, SADAT WOULD BE SUBJECTED TO NEARLY UNIVERSAL ARAB CRITICISM WHICH COULD LEAD TO HIS OVERTHROW.

6. FOR RIYADH, THE POSSIBLE OVERTHROW OF SADAT IS MUCH MORE SERIOUS THAN THE FAILURE OF HIS INITIATIVE. A RECONCILIATION WOULD REQUIRE SADAT TO REALIZE THAT HIS INITIATIVE HAD FAILED. BY MOVING TOWARD A RECONCILIATION AT THIS TIME, THE SAUDIS BELIEVE THAT THEY ARE PREPARING TO MINIMIZE THE IMPACT OF THE ULTIMATE COLLAPSE OF THE SADAT INITIATIVE. AT THE SAME TIME, THEY HOPE THAT

REPORTS OF ANTICIPATED RECONCILIATION MIGHT PRESSURE THE US TO TAKE A STRONGER STAND WHICH WOULD HELP THE INITIATIVE. DESPITE PRESS REPORTS TO THE CONTRARY, RECENT SAUDI DIPLOMATIC MOVES DO NOT SEEM TO HAVE BEEN DESIGNED TO PUT PRESSURE ON EGYPT.

7. NEVERTHELESS, IN THE RECENT MANEUVERING THE SAUDIS SEEM TO HAVE BEEN ACTING IN RESPONSE TO SADAT'S OWN ASSESSMENT AFTER THE LEEDS CASTLE TALKS THAT HIS INITIATIVE WOULD FAIL UNLESS THE US TOOK A STRONGER STAND. RATHER THAN ACTING TO PRESS SADAT TO PULL OUT OF DIRECT CONTACTS WITH ISRAEL, THE SAUDIS SEEM TO HAVE ACTED TO BOLSTER SADAT'S POLICIES TO MAKE CLEAR TO THE US WHAT THEY THINK HAS TO BE DONE. (SECRET/NOFORN)

8. SYRIA. OUR EMBASSY IN DAMASCUS RECEIVED REPORTS YESTERDAY THAT THREE ALAWITE OFFICERS WERE ASSASSINATED (AT ROUGHLY THE SAME TIME) IN DAMASCUS. ONE WAS THE DEPUTY INTERIOR MINISTER AND ANOTHER REPORTEDLY A RELATIVE
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OF ASSAD. OUR EMBASSY LEARNED THAT ONE OF THE PERPETRATORS MAY HAVE BEEN A PALESTINIAN. (SECRET)

9. EGYPT. EGYPT IS DISAPPOINTED WITH THE AMOUNT OF AID PROMISED IT AT A MEETING ON JULY 27 OF A GROUP OF WEALTHY ARAB DONORS. THE AID FALLS FAR SHORT OF EGYPT'S EXPECTATIONS AND OF RECENT ESTIMATES OF ITS NEEDS BY THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK. UNLESS LARGER AMOUNTS OF NEW AID CAN BE OBTAINED BEFORE THE END OF THE YEAR, EGYPT COULD FIND ITSELF PUSHING AGAINST THE SHORT-TERM BORROWING LIMITS SET BY ITS RECENT AGREEMENT WITH THE IMF.

10. EGYPT HAD BEEN HOPING FOR NEW COMMITMENTS OF DOLLARS 600 MILLION TO DOLLARS 1 BILLION IN QUICKLY DISBURSABLE GRANTS OR LONG-TERM LOANS. THE GULF ORGANIZATION FOR THE DEVELOPMENT OF EGYPT -- A DONOR ORGANIZATION COMPOSED OF SAUDI ARABIA, KUWAIT, THE UNITED ARAB EMIRATES, AND QATAR -- GRANTED ONLY DOLLARS 250 MILLION IN DEBT RELIEF FOR 1978 AND 1979, HOWEVER, WHILE PROMISING SUBSTANTIAL DEBT WRITEOFFS IN SUBSEQUENT YEARS.

11. THE GULF DONORS CONTENDED THAT CASH FLOW PROBLEMS, DECLINING PETROLEUM REVENUES, AND THE FALLING VALUE OF THE DOLLAR LIMIT THEIR ABILITY TO PROVIDE MORE ECONOMIC ASSISTANCE. ALTHOUGH THESE ARE IMPORTANT PROBLEMS, THE CONSERVATIVE ARAB STATES OF THE PERSIAN GULF MAY ALSO BE TRYING TO RETAIN THEIR ECONOMIC LEVERAGE IN AN ATTEMPT TO ENSURE THAT EGYPTIAN PRESIDENT SADAT IS RESPONSIVE TO THEIR INTERESTS IN PEACE NEGOTIATIONS WITH ISRAEL.

12. THE DONORS ARE ALSO STILL CONCERNED ABOUT POOR EGYPTIAN FINANCIAL MANAGEMENT, ALTHOUGH CAIRO'S RECENT AGREEMENT WITH THE IMF TO MAKE FURTHER ECONOMIC REFORMS TEMPORARILY REMOVES THIS LONGSTANDING ARAB EXCUSE FOR DELAYING NEW AID COMMITMENTS.

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13. DURING 1976 AND 1977, THE GULF DONORS COMMITTED DOLLARS 2 BILLION IN LOANS AND GUARANTEES TO EGYPT. ALL BUT DOLLARS 100 MILLION OF THIS MONEY HAS BEEN USED TO PAY OFF FOREIGN DEBT ARREARS, WHICH REACHED DOLLARS 1 BILLION EARLY IN 1977, AND TO HELP CAIRO COVER ITS REMAINING FOREIGN FINANCIAL GAP IN 1977 AND THE FIRST

HALF OF 1978.

14. THE LATEST AID COMMITMENT FALLS SHORT OF RECENT IMF AND WORLD BANK ESTIMATES THAT EGYPT NEEDS DOLLARS 600 MILLION IN 1978 AND A LIKE SUM IN 1979. CAIRO WILL FIND IT DIFFICULT TO BORROW THE REMAINING FUNDS, EVEN THOUGH THE WRITEOFF OF ITS DEBTS TO THE GULF DONORS SHOULD IMPROVE ITS CREDIT RATING. ALTHOUGH THE DONORS PROMISED TO HELP EGYPT SECURE DOLLARS 150 MILLION IN SHORT-TERM COMMERCIAL CREDITS, SHARP INCREASES IN CAIRO'S SHORT-TERM BORROWING ARE LIMITED BY THE TERMS OF THE IMF AGREEMENT. EGYPT, MOREOVER, LACKS THE CREDIT STANDING NEEDED TO RAISE LARGE AMOUNTS THROUGH MEDIUM-AND LONG-TERM COMMERCIAL LOANS.(CONFIDENTIAL) CHRISTOPHER

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